

KBN

The Norwegian Agency
for Local Governments



2020

Report for second quarter

About KBN

Kommunalbanken AS (KBN) is the Norwegian state agency for local government funding. KBN is 100 per cent owned by the Kingdom of Norway (AAA/Aaa) and is managed in accordance with the Central Government Maintenance Statement.



Sagastad at Nordfjordeid is a new knowledge center focusing on the Viking Age. The building is heated with fjord heating, has solar panels on the roof, and all lighting is LED. This provides an energy-efficient building that is self-sufficient in energy on hot and sunny days. Sagastad is financed with a green loan from KBN. Photo: Sagastad

KBN's sole purpose is to grant loans to local and regional governments or inter-municipal companies in line with KBN's explicit public policy mandate. As an instrument of the state, KBN recognizes its critical role in enabling the local and regional governments to improve living standards across the country. 100 percent of Norwegian municipalities are KBN customers.

Through its Green Bond program, KBN aims to finance the Norwegian local

sector's transition to a climate-resilient, low-carbon society. Proceeds from Green Bonds are disbursed as discounted Green Loans to climate and environmentally conscious investments in the local sector. This reflects KBN's traditional, long-term focus on environmental, ethical and social impact.

KBN is guided by prudent financial and risk management policies. All financial transactions are fully hedged and KBN maintains liquidity in excess

of policy requirements. KBN's focused, specialized monoline lending model has never suffered a loan loss.

Owing to full state ownership, the central public policy mission, a strong capital base, solid financial and operating performance and prudent financial and risk management policies, KBN is assigned Triple-A ratings by Standard & Poor's and Moody's.

Financial highlights

(Amounts in NOK 1 000 000)

	January-June 2020	January-June 2019	2019
RESULTS			
Net interest income	856	929	1 875
Core earnings ¹	456	569	1 071
Profit before tax	495	632	1 771
Profit for the period	385	487	1 283
Return on equity after tax ²	4.9%	7.0%	9.5%
Return on equity after tax (core earnings) ²	6.3%	8.7%	8.3%
Return on assets after tax ²	0.2%	0.2%	0.3%
Return on assets after tax (core earnings) ²	0.2%	0.3%	0.2%
LENDING			
New disbursements	27 478	22 007	53 825
Outstanding loans ³	306 705	302 002	309 758
LIQUIDITY PORTFOLIO³	124 458	107 599	107 350
BORROWINGS			
New long-term borrowings	55 252	53 167	72 508
Repurchase of own debt	724	8	276
Redemptions	77 595	50 356	95 704
Total borrowings ³	413 961	412 652	400 489
TOTAL ASSETS	502 505	457 239	460 778
EQUITY	17 894	15 684	16 401
Total capital adequacy ratio	23.4%	22.6%	22.6%
Tier 1 capital adequacy ratio	20.9%	20.0%	20.1%
Common equity Tier 1 capital adequacy ratio	18.0%	17.2%	17.4%
Leverage ratio	3.7%	3.6%	3.7%

	January-June 2020	January-June 2019	2019
LIQUIDITY COVERAGE RATIO (LCR)⁴			
Total	222%	355%	348%
NOK	78%	76%	73%
EUR	195%	148%	800%
USD	215%	381%	422%
AUD	1 045%	546%	Infinite
JPY	3 486%	445%	533%
GBP	Infinite	Insignificant	Infinite
OTHER KEY FIGURES			
Green loans ⁵	21 631	20 531	23 049
Emissions in CO ₂ e ⁶	40.4	n/a	192.4

¹ Profit after tax adjusted for unrealised gain/(loss) on financial instruments after tax. This result measure is included to give relevant information about the company's underlying operations.

² Annualised return on equity and assets after tax: Profit after tax/Core earnings as percentage of average equity (from owner) and average assets. Average equity is calculated based on monthly opening equity (less Tier 1 capital) excluding profit for the year/comprehensive income/interest on Tier 1 capital. Capital injections and dividends are added/deducted in the payment month, such that opening equity for the following month is adjusted for the change. Average assets is calculated based on monthly total assets.

³ Principal amounts

⁴ Liquidity coverage ratio (LCR) is a measure for the regulatory liquidity reserve. LCR is defined as liquid assets as a percentage of net payments in a given stress period of 30 days ahead.

⁵ Outstanding green loans according to KBN's set of criteria for green loans. In addition, the bank has a small portfolio of green loans that were given before these criteria were established. These loans are no longer financed with green bonds.

⁶ Includes the company's direct (Scope 1) and indirect (Scope 2) emissions, as well as residual waste and flights (Scope 3).

Good results in a normalised market

KBN's net interest income in the second quarter of 2020 was NOK 412 million as compared to NOK 470 million in the same period in 2019. Profit for the period totalled NOK 614 million in the second quarter of 2020 and NOK 385 million in the first six months of 2020. The stabilisation of the financial markets made a positive contribution to KBN's profit in the second quarter of 2020.

The coronavirus situation

The outbreak of coronavirus caused significant fluctuations in the world's financial markets in the first six months of 2020 but only affected KBN's activities to a limited extent in overall terms. KBN has been identified as an organisation that is critical to society and has been able to maintain its normal operations, albeit with a large proportion of its employees working from home. In the second quarter of 2020, the financial markets gradually stabilised, the Norwegian krone strengthened after having weakened markedly in March 2020, and credit spreads decreased to more normal levels. As a result KBN's balance sheet was smaller at the end of the second quarter of 2020 than at the end of March 2020, while at the same time the unrealised losses on financial instruments, that KBN recognised in the first quarter of 2020, were largely reversed during the second quarter of 2020. KBN's hedging of interest rate risk and foreign exchange risk means limited exposure to market turmoil. There were signs of liquidity challenges in the market for local government sector securities in the month of March 2020, but the market functioned as normal in the second quarter of 2020, with municipalities experiencing good access to financing. KBN's market share has therefore been fairly stable during this phase of the coronavirus pandemic.

Results

KBN's net interest income in the second quarter of 2020 was NOK 412 million as compared to NOK 470 million in the same period in 2019. KBN's lending activities contributed with net interest income that was somewhat lower than in the second quarter of 2019 as a result of KBN having quickly altered its own lending rates in line with the interest rate cuts made by Norges Bank. KBN took this action to ensure

Table 1
Profit for the period

	Q2 2020	Q2 2019	2019
Profit/(Loss) for the period	614	323	1 283
Net interest income	412	470	1 875
Fees and commission expenses	24	26	87
Net unrealised gain/(loss) on financial instruments	485	20	213
Expected credit loss	(4)	0	1
Net trading income	(19)	7	23
Total operating expenses	56	58	252
Income tax	189	92	488

Amounts in NOK 1 000 000

Table 2
Comprehensive income
for the period

	Q2 2020	Q2 2019	2019
Total comprehensive income for the period	417	410	1 515
Profit/(Loss) for the period	614	323	1 283
Unrealised change in fair value of liabilities (and related financial derivatives) after tax due to changes in own credit risk	(197)	88	242
Actuarial gain/(loss) on defined benefit plan	0	0	(10)
Tax effect on positions in Statement of comprehensive income	66	(29)	(77)

Amounts in NOK 1 000 000

that the cuts made to Norway's key policy rate benefit the local government sector. It takes some time for KBN's own interest expense to adjust correspondingly. KBN's liquidity management activities yielded lower margins and therefore weaker earnings in the second quarter of 2020, with the exception of a positive contribution from the income generated on the large volume of cash collateral KBN had received in the month of April 2020.

KBN's profit for the period in the second quarter of 2020 reflected the gradual normalisation of market conditions. Profit for the period in the second quarter of 2020 totalled NOK 614 million as compared to NOK 323 million in the second quarter of 2019. The main reason for the strong profit for the period in the second quarter of 2020 was unrealised gains totalling NOK 485 million on financial instruments and instalment loans measured at fair value. Unrealised gains on KBN's fixed rate loans, which are measured at fair value, amounted to NOK 340 million. This was due to a gradual reduction in credit spreads in the markets during the second quarter of 2020. Hedging instruments used to convert funding in US dollars to Norwegian kroner contributed with an unrealised gain of around NOK 180 million, primarily as a result of falling short-term interest rates. In the second quarter of 2019, KBN recognised unrealised gains totalling NOK 20 million. KBN's unrealised gains and losses are expected to reverse, either as market conditions normalise or as the instruments approach maturity. KBN's gains in the second quarter of 2020 are the result of such a reversal. Sales of securities in the liquidity portfolio resulted in realised losses of NOK 19 million in the second quarter of 2020.

KBN also recognised a NOK 4 million decrease in expected credit losses on its lending and bond investments in the second quarter of 2020. This was due to lower uncertainty in the real economy than at the end of the first quarter of 2020. KBN's provision for losses is relatively limited due to the fact that Norwegian municipalities cannot be declared insolvent, and no discernible payment problems are being encountered in the local government sector as a result of coronavirus. KBN's liquidity portfolio is also of very high credit quality. KBN's total operating costs for the second quarter of 2020

were NOK 56 million as compared to NOK 58 million in the same period in 2019. KBN operated more or less as normal in the second quarter of 2020 and its costs were little impacted by the COVID-19 outbreak. No employees have been furloughed.

KBN's core earnings totalled NOK 233 million in the second quarter of 2020, compared to NOK 295 million in the same period in 2019.

Net interest income in the first six months of 2020 was NOK 856 million as compared to NOK 929 million in the first six months of 2019. The decrease was primarily due to temporarily lower margins on lending to municipalities as a result of the reduction in KBN's lending rate. KBN's profit for the period in the first six months of 2020 was NOK 385 million as compared to NOK 487 million in the same period in 2019. This decrease was due to the decrease in net interest income described above. KBN's total operating costs for the first six months of 2020 were NOK 120 million, which is approximately in line with the same period in 2019, when they totalled NOK 118 million.

Based on its result from ordinary activities, KBN's return on equity in the first six months of 2020 was 4.9%, compared to 7.0% in the same period in 2019. Based on its core earnings, KBN's return on equity in the first six months of 2020 was 6.3%, compared to 8.7% in the same period in 2019. The decrease was partially expected on the basis of higher funding costs, but it otherwise related to the net interest income from KBN's lending being temporarily impacted by the outbreak of coronavirus, and somewhat to increased share capital. A more long-term effect of the outbreak of coronavirus is that KBN's return on equity will be lower as a result of market interest rates having fallen towards zero.

KBN's total comprehensive income in the first six months of 2020 amounted to NOK 601 million, compared to NOK 797 million in the same period in 2019. The credit spreads for KBN-issued bonds increased due to the market turmoil, as did the spreads for similar types of issuers in the international financial markets. This increase caused the market value of KBN's debt to decrease, and an unrealised gain totalling NOK 287 million was recognised in the first six months of 2020 as part of total comprehensive income as Change in fair value of liabilities due to changes in own credit risk. There was an equivalent unrealised gain in the first six months of 2019 totalling NOK 414 million. For the second quarter seen in isolation, an unrealised loss was recognised as a result of credit spreads decreasing over the quarter of 2020.

Lending

KBN's lending portfolio totalled NOK 306.7 billion at the end of the second quarter of 2020. This is approximately unchanged from the first quarter of 2020 but is in contrast to the second quarter of 2019 when the lending portfolio decreased by NOK 3.7 billion. In the first six months of 2020, KBN's lending portfolio decreased by approximately NOK 3 billion, equivalent to a decrease of 1%. For comparison, growth in KBN's lending portfolio was flat in the first six months of 2019.

Following the major financial turmoil seen at the end of the first quarter and the start of the second quarter of 2020, both supply and demand for loans to Norwegian municipalities and county authorities quickly normalised from mid-April. The second quarter of 2020 was characterised by a higher level of activity than is normal for the second quarter. KBN registered demand for new loans in the second quarter of 2020 totalling NOK 10.7 billion, which is NOK 3.1 billion more than in the second quarter of 2019. KBN registered demand for new loans in the first six months of 2020 totalling NOK 23.1 billion, compared to NOK 16.7 billion in the first six months of 2019.

In the second quarter of 2020 there was strong growth in fixed rate loans of varying maturities, while the various categories of floating rate loans grew less strongly. A

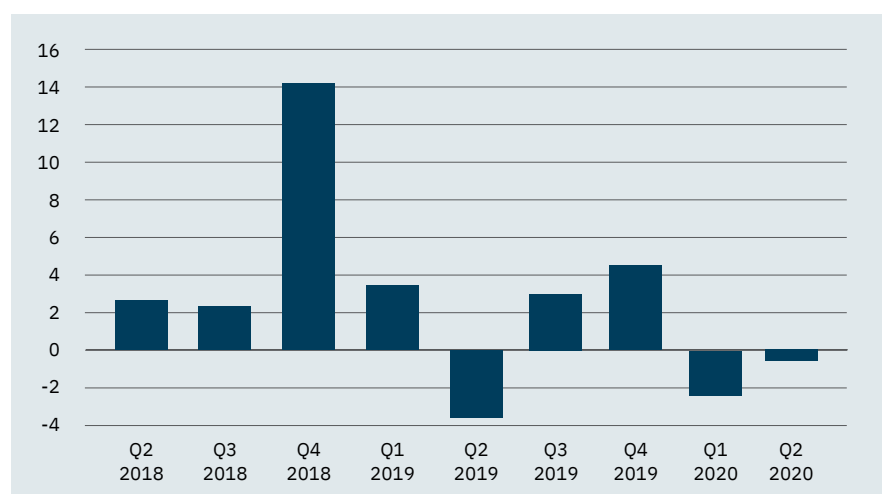
managed reduction in loans with maturities of 12 months or less resulted in the size of KBN's overall lending portfolio remaining approximately unchanged despite the high level of demand and growth in loan disbursements. KBN saw similar changes in the portfolio in the second quarter of 2019. KBN has introduced stricter requirements for customer's maximum share of total debt maturing over the next 12 months. During the first six months of 2020 this resulted in KBN not offering loans with maturities of 12 months or less to some municipalities that use the capital markets.

KBN's portfolio of green loans increased by NOK 300 million in the second quarter of 2020, while it decreased by NOK 1.46 billion over the first six months of the year. After adjusting for the termination of a single green loan, the portfolio grew by NOK 1.1 billion in the first six months of the year, which is in line with the same period in 2019.

New loan disbursements totalled NOK 27.5 billion in the first six months of 2020, compared to NOK 22.0 billion in the same period in 2019. These figures include both loans disbursed as new financing and as refinancing for existing loans.

The rate of debt growth in the local government sector (according to Statistics Norway's C2 credit indicator) over the twelve months to the end of May 2020 was 7.5%. This is a higher rate of growth than over the corresponding period in 2018-2019 and higher than for 2019 as a whole. KBN's market share at the end of May 2020 was approximately 46%.

Lending growth
Amounts in
NOK 1 000 000 000

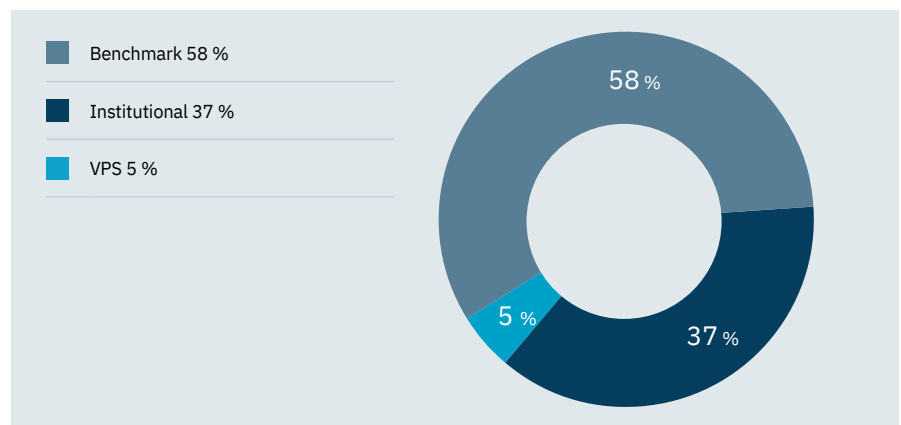


Financial markets

Funding KBN's funding activities in the second quarter of 2020 were somewhat more extensive than in the second quarter of 2019 due to a greater need for refinancing. The need for new funding increased towards the end of the second quarter of 2020 in line with the stabilisation of the financial markets. New borrowings in the second quarter of 2020 totalled approximately NOK 24.9 billion through six bond issues in four currencies, compared to NOK 18 billion in the second quarter of 2019. KBN issued a ten-year USD 1.5 billion benchmark bond in June 2020, which was very well received by the market, attracted a significant amount of interest from central banks and public sector institutions, and was significantly oversubscribed. In addition to this funding in US dollars, KBN carried out smaller bond issues in New Zealand dollars and Australian dollars. This is in line with KBN's funding strategy of

focusing on diversification in different markets. In June 2020, KBN redeemed an additional Tier 1 capital instrument of NOK 1.0 billion. At the same time, the bank issued a new additional Tier 1 capital instrument, with the nominal value of NOK 1.2 billion. In the first six months of 2020 KBN's new borrowings totalled NOK 55.3 billion as compared to NOK 53.2 billion in the first six months of 2019.

Funding
Investor markets
second quarter 2020



Liquidity management

KBN's liquidity portfolio totalled NOK 124.5 billion at 30 June 2020 as compared to NOK 107.6 billion at the same point in 2019. KBN seeks to ensure its liquidity portfolio matches its capital requirements, including lending growth, for the subsequent twelve months at all times, and it is managed on the basis of a low-risk investment strategy.

The liquidity portfolio is principally held in zero-risk-weighted assets, and investments denominated in foreign currencies represent approximately 70% of the portfolio. Fluctuations in the value of the Norwegian krone relative to other currencies will therefore result in fluctuations in the size of the liquidity portfolio in NOK terms. Some of the reported increase in value of the liquidity portfolio can therefore be ascribed to the Norwegian krone being weaker than at the end of June 2019.

The market implications of the COVID-19 outbreak have proved to be extensive and have continued into the second quarter of 2020. Support measures in the form of interest rate cuts, asset purchase programs and other stimulus measures implemented by central banks and other authorities have continued. Norges Bank cut its key policy rate in May 2020 by 0.25 percentage points to the historically low level of zero, and it is expected to remain at a low level for some time.

The impact of the coronavirus pandemic on credit margins has to a large extent reversed and the most extreme volatility in the Norwegian krone against the US dollar, for example, has decreased. The Norwegian krone has strengthened somewhat from the record lows seen in March 2020, and the value of KBN's holdings of cash collateral has consequently decreased significantly. Over the period short-term investments were prioritised to ensure liquidity for continuing outflows of cash collateral. With short-term money market deposits included, the liquidity portfolio stood at NOK 134.5 billion at the end of the second quarter of 2020.

Capital

KBN's capital position at the end of the second quarter of 2020 was significantly stronger than at the end of the first quarter of 2020 due to factors including the normalisation of the markets during the second quarter of 2020. Another reason for the increase is that common equity Tier 1 capital has been increased by KBN receiving NOK 750 million in common equity Tier 1 capital in April 2020 in preparation for turmoil in the markets for local sector financing related to the coronavirus outbreak. If this contingency is used, the effect on capital adequacy will be reduced.

At the end of the second quarter of 2020, KBN's total common equity Tier 1 capital was NOK 14.8 billion, its total Tier 1 capital was NOK 17.2 billion, and its total primary capital was NOK 19.2 billion. KBN's total assets at the end of the second quarter of 2020 totalled NOK 503 billion, a decrease from NOK 554 billion at 31 March 2020. KBN's total assets were NOK 461 billion at the end of 2019 and NOK 457 billion at the end of the second quarter of 2019. The increase since the end of 2019 is primarily due to the weakening of the Norwegian krone in the month of March 2020, which resulted in KBN's non-NOK-denominated balance sheet items increasing in value in NOK terms. In addition, the weakening of the krone caused the market value of KBN's derivative contracts to increase significantly, and KBN received significant amounts of cash collateral deposits. This cash collateral increased KBN's total assets. KBN was consequently very liquid during the early phase of the coronavirus outbreak. The weakening of the krone largely reversed during the second quarter of 2020, and by 30 June 2020 KBN had paid out cash collateral and accordingly reduced its total assets to more normal levels.

At the end of the second quarter of 2020, KBN had a common equity Tier 1 capital adequacy ratio of 18.0%, a Tier 1 capital adequacy ratio of 20.9%, and a total capital adequacy ratio of 23.4%. The corresponding capital requirements imposed by the authorities at this point were 14.1%, 15.6% and 17.6% respectively. The requirements are all 0.7 percentage points lower than at the end of 2019, when the requirements were 14.8%, 16.3% and 18.3% respectively. The decrease is a combination of KBN's pillar 2 requirement having increased by 0.7 percentage points with effect from 31 March 2020 and of KBN's institution-specific countercyclical buffer decreasing by 1.4 percentage points as a result of the Ministry of Finance reducing the Norwegian countercyclical buffer rate to 0.5% in connection with the COVID-19 crisis. KBN's leverage ratio at the end of the second quarter of 2020 was 3.7%, which compares with the requirement of 3.0%. KBN's capital adequacy decreased due to the market turmoil at the end of the first quarter of 2020 but significantly improved during the second quarter of 2020.

Future prospects

The capital increase approved by the Norwegian Parliament in April increased KBN's lending capacity by NOK 20-25 billion and will function as an additional source of capacity if municipalities find that they cannot access financing in other markets.

The Norwegian parliament has provided the local government sector with several rounds of additional grants in connection with the coronavirus outbreak. This funding is intended to compensate municipalities and county authorities for their additional costs and to boost Norway's economy, including through maintenance work. According to a KBN customer-survey, a large majority of municipalities expect their financial results to be weaker in 2020, but nonetheless expect that the consequences of the coronavirus outbreak will only have a limited impact on their level of planned investment spending. KBN therefore expects debt growth in the sector in 2020 to be around 7%. The same survey revealed that municipalities continue to have major investment spending plans for the years ahead that will result in demand for debt financing, even in the expectedly more challenging financial situation.

Financial management is affected by developments in the international economy. We have seen increasing uncertainty and volatility in the financial markets in recent years. Rising government debt in many countries, trade disputes and large currency fluctuations characterise the development. High uncertainty is still expected in the years to come.

During the second quarter, KBN was able to gradually scale back the various measures it had implemented to limit the risk of its employees becoming infected with coronavirus. Half the company's workforce now has the option to work from its premises, which have also re-opened for meetings with external parties. Travel and physical events are being carried out in line with the authorities' recommendations.

Since the end of March KBN has organised weekly customer webinars, which have received good feedback. It has also run a webinar series on municipalities' climate risk, which replaced a planned conference on that topic with over 200 participants from the local government sector. Further work is being done on developing digital solutions that will strengthen KBN's communication with its most important stakeholders and to some extent replace KBN's normal travel activities. This is in line with KBN's objectives for customer-driven digitalisation, efficiency, and reducing its own greenhouse gas emissions. KBN launched a new customer portal on 18 April that offers a range of new functions. These include giving customers access to a summary of their relationship with KBN as well as on-line services to submit loan applications and to make changes to existing loans. KBN has received very good feedback on the solution and a large proportion of the bank's customers have started using the new portal.

Board statement

We confirm that the company's half-year financial statements for the period 1 January 2020 to 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting, and that the information in the financial statements gives a true and fair view of the company's assets, liabilities, financial position and results as a whole.

In our best belief, the half-year report provides a true and fair view of important events during the accounting period and their influence on the half-yearly accounts, and the most important risk and uncertainty factors the company faces in the next accounting period.

Oslo, 31 July 2020
The board of Kommunalbanken AS

Interim condensed financial information

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	April-June 2020	January-June 2020	April-June 2019	January-June 2019	2019
Interest income from assets measured at amortised cost		888	2 272	1 188	2 311	5 039
Interest income from assets measured at fair value		732	1 781	888	1 832	3 777
Total interest income		1 620	4 053	2 076	4 143	8 817
Total interest expense		1 208	3 198	1 606	3 214	6 942
Net interest income	1	412	856	470	929	1 875
Fees and commission expenses		24	59	26	47	87
Net unrealised gain/(loss) on financial instruments	2	485	(141)	20	(143)	213
Expected credit loss	6	(4)	25	0	0	1
Net trading income		(19)	(16)	7	11	23
Total other operating income		446	(239)	1	(179)	148
Salaries and administrative expenses		30	70	37	78	159
Depreciation on fixed assets		6	12	5	11	22
Other expenses		19	39	16	29	71
Total operating expenses		56	120	58	118	252
Profit before tax		804	495	415	632	1 771
Income tax		189	110	92	145	488
Profit for the period		614	385	323	487	1 283
Portion allocated to shareholder		602	357	310	462	1 231
Portion allocated to owners of additional Tier 1 capital		13	28	13	25	52

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	April-June 2020	January-June 2020	April-June 2019	January-June 2019	2019
Profit for the period		614	385	323	487	1 283
Other comprehensive income						
<i>Items which will not be reclassified to profit or loss</i>						
Change in fair value of liabilities due to changes in own credit risk	10	(262)	287	117	414	319
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	(10)
Tax effect		66	(72)	(29)	(103)	(77)
Total other comprehensive income		(197)	215	88	310	232
Total comprehensive income for the period		417	601	410	797	1 515

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK 1 000 000)	Note	30 June 2020	30 June 2019	31 December 2019
Assets				
Deposits with credit institutions	3,4,9	32 249	30 453	18 181
Other money market deposits		488	-	3 244
Instalment loans	3,4,5,6	311 729	303 730	310 912
Notes, bonds and other interest-bearing securities	3,4,6,7,8	128 973	111 244	111 111
Financial derivatives	3,4,9	26 941	11 643	15 025
Deferred tax asset		1 954	-	2 134
Other assets		171	169	172
Total assets		502 505	457 239	460 778
Liabilities and equity				
Loans from credit institutions	3,4	14 658	2 872	4 462
Commercial paper	3,4	4 580	-	2 631
Senior securities issued	3,4,10	423 699	409 733	403 913
Financial derivatives	3,4,9	35 571	25 363	27 425
Other liabilities		73	143	55
Current tax liabilities		3 868	0	3 868
Deferred tax liabilities		0	1 413	0
Pension liabilities		36	47	36
Subordinated debt	3,4	2 125	1 987	1 987
Total liabilities		484 610	441 555	444 377
Share capital		3 895	3 145	3 145
Additional Tier 1 capital		2 392	2 189	2 189
Retained earnings		11 223	9 863	11 067
Profit for the period		385	487	
Total equity	11	17 894	15 684	16 401
Total liabilities and equity		502 505	457 239	460 778

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 30 June 2020				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2019	3 145	2 189	(395)	11 460	16 401
Profit for the period	0	0	0	385	385
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	215	0	215
Other comprehensive income—actuarial gain/loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(60)	(60)
Call of Tier 1 capital	0	(994)	0	0	(994)
Issuance of Tier 1 capital	0	1 197	0	0	1 197
Issue of share capital	750	0	0	0	750
Dividends for 2019	0	0	0	0	0
Equity as of 30 June 2020	3 895	2 392	(179)	11 786	17 894

	1 January - 30 June 2019				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2018	3 145	2 189	(634)	10 720	15 421
Profit for the period	0	0	0	487	487
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	310	0	310
Other comprehensive income—actuarial gain/loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(53)	(53)
Dividends for 2018	0	0	0	(481)	(481)
Equity as of 30 June 2019	3 145	2 189	(324)	10 673	15 684

	1 January - 31 December 2019				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2018	3 145	2 189	(634)	10 720	15 421
Profit for the period	0	0	0	1 283	1 283
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	239	0	239
Other comprehensive income—actuarial gain/loss	0	0	0	7	7
Interest paid on Tier 1 capital	0	0	0	(69)	(69)
Dividends for 2018	0	0	0	(481)	(481)
Equity as of 31 December 2019	3 145	2 189	(395)	11 460	16 401

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)	January-June 2020	January-June 2019	2019
Cash flows from operating activities			
Interest received	4 577	4 065	8 666
Interest paid	(3 175)	(3 114)	(6 514)
Fees and commissions paid	(50)	(47)	(87)
Receipts from repurchase of issued securities	(16)	11	21
Cash payments to employees and suppliers	(105)	(104)	(246)
Income taxes paid	0	0	0
Net disbursement of loans to customers	3 084	230	(7 557)
Net (increase)/decrease in deposits with credit institutions	1 509	(16 838)	(5 758)
Net (increase)/decrease in notes, bonds and other interest-bearing securities	(10 600)	4 239	6 812
Net (increase)/decrease in other assets	7	(3)	(9)
Net increase/(decrease) in other liabilities	1	66	(23)
Net (increase)/decrease in financial derivatives	24 904	8 051	24 528
Net cash flows from operating activities	20 137	(3 443)	19 832
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(16)	(7)	7
Net cash flows from investing activities	(16)	(7)	7
Cash flows from financing activities			
Proceeds from issuance of commercial paper	30 142	17 647	20 337
Repayment of commercial paper	(28 816)	(17 671)	(17 678)
Repayment on lease obligation	(3)	(3)	(6)
Proceeds from issuance of debt securities	55 252	53 167	72 508
Repayment of debt securities	(77 619)	(49 472)	(94 564)
Proceeds from issuance of additional Tier 1 capital	1 196	0	0
Repayment of Tier 1 capital	(1 000)	-	-
Interest paid on Tier 1 capital	(55)	(53)	(69)
Dividends paid	0	(481)	(481)
Paid in share capital	750	0	0
Net cash flows from financing activities	(20 152)	3 134	(19 952)
Net cash flows	(31)	(316)	(113)
Effects of foreign exchange differences	329	297	296
Net cash flows after foreign exchange differences	297	(19)	183
Cash and cash equivalents at 1 January	459	276	276
Net change in cash and cash equivalents	297	(19)	183
Cash and cash equivalents at end of period	756	257	459
Whereof			
Deposits with credit institutions without agreed time to maturity	756	257	459
Loans from credit institutions without agreed time to maturity	0	0	0

ACCOUNTING POLICIES

KBN prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The interim financial statements as of 30 June 2020 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2019, except for the following:

The preparation of financial statements in accordance with IFRS requires that management uses estimates and judgments that may affect the carrying amounts of assets and liabilities, and revenues and costs. Estimates and judgments are based on historical experience and expectations regarding future developments, and actual outcomes may deviate from the estimates.

Fair value of financial instruments that are not traded in an active market or where quoted prices are not readily available on the reporting date is determined using valuation techniques. The measurement of fair value requires management to make judgments and assumptions related to credit and liquidity risk related to the financial instruments. Even though the judgments and as-

sumptions are based to the largest extent possible on actual market conditions on the reporting date, they may increase the uncertainty related to carrying amounts.

In April 2020, it was announced that the international work related to the replacement of today's Interbank Offered Rates (IBOR) will not change its 2021 time-line due to the corona crisis. KBN has a number of contracts with terms related to such reference rates and will be affected by the changes. The bank monitors developments both in connection with changes in accounting standards and otherwise. The IASB published draft amendments for phase 2 of its work in this area in April 2020. The preliminary opinion is that already hedged relationships with IBOR terms can be continued. No transition effects are otherwise recognised in KBN's accounts.

KBN's share capital was increased by the issuance of 750 000 new shares with a par value of NOK 1 000 for each share on April 15 2020. The new shares were subscribed by the Norwegian State through the Ministry of Local Government and Modernisation.

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

April-June 2020	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	(2)	0	0	0	0	(2)
Other money market deposits	(2)	0	0	0	0	(2)
Instalment loans	1 347	539	0	0	539	807
Notes, bonds and other interest-bearing securities	571	486	0	0	486	85
Financial derivatives	(293)	0	(293)	0	(293)	0
Total interest income	1 620	1 026	(293)	0	732	888
Loans from credit institutions	(1)	0	0	0	0	(1)
Commercial paper	0	0	0	0	0	0
Senior securities issued	2 555	1 553	0	0	1 553	1 002
Financial derivatives	(1 362)	0	(977)	(385)	(1 362)	0
Subordinated debt	15	15	0	0	15	0
Total interest expenses	1 208	1 568	(977)	(385)	206	1 002
Net interest income	412	(542)	683	385	526	(114)

January-June 2020	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	(2)	0	0	0	0	(2)
Other money market deposits	(8)	0	0	0	0	(8)
Instalment loans	3 133	1 074	0	0	1 074	2 059
Notes, bonds and other interest-bearing securities	1 560	1 337	0	0	1 337	223
Financial derivatives	(630)	0	(630)	0	(630)	0
Total interest income	4 053	2 412	(630)	0	1 781	2 272
Loans from credit institutions	(1)	0	0	0	0	(1)
Commercial paper	39	0	0	0	0	39
Senior securities issued	5 191	2 725	0	0	2 725	2 466
Financial derivatives	(2 061)	0	(1 422)	(639)	(2 061)	0
Subordinated debt	30	30	0	0	30	0
Total interest expenses	3 198	2 754	(1 422)	(639)	693	2 505
Net interest income	856	(343)	792	639	1 088	(232)

April-June 2019	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	(2)	0	0	0	0	(2)
Instalment loans	1 541	460	0	0	460	1 081
Notes, bonds and other interest-bearing securities	286	178	0	0	178	108
Financial derivatives	250	0	250	0	250	0
Total interest income	2 076	638	250	0	888	1 188
Loans from credit institutions	0	0	0	0	0	0
Senior securities issued	2 683	1 373	0	0	1 373	1 311
Financial derivatives	(1 093)	0	(1 153)	60	(1 093)	0
Subordinated debt	15	15	0	0	15	0
Total interest expenses	1 606	1 388	(1 153)	60	295	1 311
Net interest income	470	(750)	1 403	(60)	593	(123)

January-June 2019	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	2	0	0	0	0	2
Instalment loans	2 982	912	0	0	912	2 071
Notes, bonds and other interest-bearing securities	554	315	0	0	315	238
Financial derivatives	605	0	605	0	605	0
Total interest income	4 143	1 227	605	0	1 832	2 311
Loans from credit institutions	0	0	0	0	0	0
Senior securities issued	5 632	3 015	0	0	3 015	2 617
Financial derivatives	(2 448)	0	(2 670)	222	(2 448)	0
Subordinated debt	30	30	0	0	30	0
Total interest expenses	3 214	3 045	(2 670)	222	597	2 617
Net interest income	929	(1 819)	3 275	(222)	1 234	(306)

2019	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	0	0	0	0	0	(0)
Instalment loans	6 350	1 878	0	0	1 878	4 472
Notes, bonds and other interest-bearing securities	1 200	632	0	0	632	568
Financial derivatives	1 267	0	1 267	0	1 267	0
Total interest income	8 817	2 511	1 267	0	3 777	5 039
Loans from credit institutions	(0)	(0)	0	0	(0)	0
Senior securities issued	10 897	5 689	0	0	5 689	5 207
Financial derivatives	(4 016)	0	(4 202)	186	(4 016)	0
Subordinated debt	61	61	0	0	61	0
Total interest expenses	6 942	5 751	(4 202)	186	1 735	5 207
Net interest income	1 875	(3 240)	5 468	(186)	2 043	(168)

NOTE 2

Net unrealised gain/(loss) on financial instruments

<i>(Amounts in NOK 1 000 000)</i>	April-June 2020	January-June 2020	April-June 2019	January-June 2019	2019
Instalment loans	844	4 163	137	261	(412)
Notes, bonds and other interest-bearing securities	(438)	855	491	824	750
Financial derivatives	3 183	1 233	3 916	8 486	15 380
Senior securities issued	(3 091)	(6 224)	(4 508)	(9 680)	(15 501)
Subordinated debt	(13)	(167)	(16)	(35)	(4)
Net unrealised gain/(loss) on financial instruments	485	(141)	20	(143)	213

Changes in fair value of liabilities due to changes in own credit risk are not included in the line Net unrealised gain/(loss) on financial instruments in the table above. Such fair value changes are recognised in Other comprehensive income in the Statement of comprehensive income. See Note 10 Senior securities issued for information on calculating such value changes. The change in fair value arising from Senior securities issued presented in the above table is due to changes in parameters other than credit.

Changes in fair value are the result of changes in market prices, mainly prices on bonds, interest rates, credit spreads, basis swap spreads and FX rates, and are reflected in carrying amounts in the Statement of financial position and in the Income statement. As KBN takes very limited currency and interest rate risk, the changes in relevant parameters will mostly be symmetric on the asset and liabilities sides of the Statement of financial position and therefore to a small extent give rise to net effects in the income statement. Changes in credit spreads for investments in the liquidity portfolio, fixed rate instalment loans and issued bonds may on the other hand lead to significant income statement effects, as may changes in basis swap spreads.

Unrealised changes in fair value in the second quarter of 2020 are mainly due to a reversal of unrealised losses in the first quarter of

2020, which were related to the coronavirus outbreak and its associated market turmoil, mainly in form of credit spread increase, amongst other factors. Of the total net unrealised gains on financial instruments of NOK 485 million in the second quarter of 2020, about NOK 340 million relate to fixed rate instalment loans, that are measured at fair value, and associated hedging contracts. The loans contribute a gain of NOK 844 million, while the hedging contracts contribute an unrealised loss of NOK 506 million, a total net gain of NOK 338 million in the quarter. The unrealised loss for the hedging contracts is included in the line Financial derivatives in the table above. Sharp increase of credit spreads for these loans in March 2020 resulted in unrealised losses. The increase has to a large extent reversed in the second quarter of 2020. Furthermore, hedging instruments that convert USD to NOK contribute to a reversal of losses from the first quarter of 2020 with an unrealised gain of approximately NOK 180 million in the second quarter of 2020. This gain is also reflected in the line Financial derivatives in the table above.

Recognised value changes on financial instruments in fair value hedges amount to NOK –29 million in the second quarter of 2020. This amount is included in the above table as net unrealized changes in value. The carrying amount of financial instruments included in fair value hedges amounts to NOK 196 billion.

NOTE 3

Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 June 2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	32 249	0	0	0	32 249
Other money market deposits	488	0	0	0	488
Instalment loans	311 729	105 428	0	0	206 301
Notes, bonds and other interest-bearing securities	128 973	99 317	0	0	29 656
Financial derivatives	26 941	0	18 814	8 127	0
Total financial assets	500 380	204 744	18 814	8 127	268 694

Loans from credit institutions	14 658	0	0	0	14 658
Commercial paper	4 580	0	0	0	4 580
Senior securities issued	423 699	174 834	0	0	248 865
Financial derivatives	35 571	0	35 571	0	0
Subordinated debt	2 125	2 125	0	0	0
Total financial liabilities	480 632	176 959	35 571	0	268 103

At 30 June 2019	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	30 453	0	0	0	30 453
Instalment loans	303 730	87 841	0	0	215 889
Notes, bonds and other interest-bearing securities	111 244	77 392	0	0	33 853
Financial derivatives	11 643	0	8 912	2 732	0
Total financial assets	457 071	165 233	8 912	2 732	280 195

Loans from credit institutions	2 872	0	0	0	2 872
Senior securities issued	409 733	176 425	0	0	233 308
Financial derivatives	25 363	0	25 155	207	0
Subordinated debt	1 987	1 987	0	0	0
Total financial liabilities	439 954	178 412	25 155	207	236 180

At 31 December 2019	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	18 181	0	0	0	18 181
Other money market deposits	3 244	394	0	0	2 850
Instalment loans	310 912	95 014	0	0	215 898
Notes, bonds and other interest-bearing securities	111 111	89 397	0	0	21 714
Financial derivatives	15 025	0	12 095	2 929	0
Total financial assets	458 472	184 805	12 095	2 929	258 643

Loans from credit institutions	4 462	0	0	0	4 462
Commercial paper	2 631	0	0	0	2 631
Senior securities issued	403 913	170 856	0	0	233 057
Financial derivatives	27 425	0	27 046	379	0
Subordinated debt	1 987	1 987	0	0	0
Total financial liabilities	440 418	172 844	27 046	379	240 149

NOTE 4

Financial instruments measured at fair value

Methods used for the determination of fair value fall within three categories, which reflect different degrees of valuation uncertainty:

Level 1 - Quoted prices in active markets for identical assets and liabilities

Level 2 - Valuation techniques with observable inputs

Level 3 - Valuation techniques where inputs are to a significant degree unobservable

See Note 11 in the Annual Report 2019 for further information about valuation techniques, inputs, value change analysis and sensitivities. Financial instruments measured at fair value in KBN's Statement of financial position as of 30 June 2020 are distributed in the following way in the fair value hierarchy:

<i>(Amounts in NOK 1 000 000)</i>	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	0	0	0
Other money market deposits	0	0	0	0
Instalment loans	0	11 574	93 854	105 428
Notes, bonds and other interest-bearing securities	86 324	3 628	9 364	99 317
Financial derivatives	0	24 539	2 402	26 941
Total financial assets measured at fair value	86 324	39 741	105 619	231 685
Loans from credit institutions	0	0	0	0
Commercial paper	0	0	0	0
Senior securities issued	16 111	101 176	57 547	174 834
Financial derivatives	0	24 475	11 096	35 571
Subordinated debt	0	0	2 125	2 125
Total financial liabilities measured at fair value	16 111	125 651	70 767	212 529

Reconciliation of movements in Level 3

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2019	81 437	7 406	66 156	1 987	(7 376)
Purchase	0	4 130	0	0	0
Sale	0	0	(275)	0	17
Issue	17 125	0	0	0	0
Settlement	(13 079)	(1 816)	(9 544)	0	(2 752)
Transfer into Level 3	1 671	2 155	0	0	0
Transfer out of Level 3	(1 187)	(2 396)	0	0	0
Gain/(loss) recognised in the period	7 886	(117)	1 210	137	1 417
Carrying amount at 30 June 2020	93 854	9 364	57 547	2 125	(8 695)

Net holdings amounting to NOK 1.8 billion have been transferred from Level 2 to Level 1 in 2020. There are net transfers of NOK 243 million to Level 3 during 2020. The transfers into and out of Level 3 are mainly due to changes in market conditions that affect the assessment of inputs to the valuation techniques during the reporting period, and refinancing/change of loan product for Instalment loans. All gains/(losses) on financial instruments in Level 3 are recognised in the Income statement under "Net interest income", "Net unrealised gain/(loss) on financial instruments" or "Net trading income", or in Other comprehensive income.

Information on valuation techniques:

The methods used for determining the fair value of financial instruments are defined based on the instruments' features and structure. Fair value of financial instruments without embedded derivatives or option elements is determined using the discounted cash flows method, where discount rates are derived from the relevant observable money market interest rates and other significant risk factors that may affect the fair value of the instruments. When such factors cannot be reliably observed at a reporting date, management may make assumptions and use estimates when determining fair value. Fair value of financial instruments with embedded derivatives or option elements is determined using a combination of a discounted cash flow method and option pricing models with observable market data and estimates as inputs. The most significant unobservable inputs used in the valuation in Level 3 are credit spreads for financial instruments not traded in an active market. The table below shows the impact of a 10 bp increase in the credit spread for financial assets and liabilities in Level 3 at 30 June 2020:

	30 June 2020
Instalment loans	(377)
Notes, bonds and other interest-bearing securities	(19)
Financial derivatives	(232)
Senior securities issued	233
Subordinated debt	15
Total	(380)

NOTE 5

Instalment loans

(Amounts in NOK 1 000 000)	30 June 2020	30 June 2019	31 December 2019
Principal amount	306 705	302 002	309 758
Accrued interest	1 080	1 249	1 318
Fair value adjustment	3 979	490	(183)
Expected credit loss	(35)	(11)	(11)
Total instalment loans	311 729	303 730	310 881

NOTE 6

Expected credit loss

Changes in expected credit losses (reduction) on instalment loans and bond investments of NOK 4 million were recorded in the second quarter of 2020. This is a partial reversal of the increase in the bank's total loss provisions of NOK 28 million in the first quarter of 2020. The increase was based on increased uncertainty in the economy due to the coronavirus outbreak. The subsequent reversal is a consequence of reduced uncertainty in the markets and increased activity levels.

The below table shows expected credit loss as part of the carrying amount of Instalment loans and Notes, bonds and other interest-bearing securities at the end of the period.

(Amounts in NOK 1 000 000)	30 June 2020		31 December 2019
	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	206 301	(35)	(11)
Notes, bonds and other interest-bearing securities	29 656	(2)	(1)
Total	235 957	(37)	(12)

The below table shows a specification of the period's change in expected credit loss that is recognised in the income statement:

(Amounts in NOK 1 000)	April-June 2020	January-June 2020	2019
Instalment loans	3 587	(23 444)	(282)
Notes, bonds and other interest-bearing securities	357	(1 072)	(384)
Total	3 944	(24 516)	(666)

The following table shows an allocation of KBN's expected credit losses as at 30 June 2020 to stage 1, 2 and 3. According to the impairment principles described in IFRS 9 *Financial Instruments*, Stage 1 implies no significant increase in credit risk since recognition of the asset. Stage 2 implies such a significant increase, while stage 3 implies that the asset is credit-impaired. See the Accounting Policies in the 2019 annual report for a description of the allocation to stages and the model for calculation of expected credit loss.

All exposures are estimated to be in Stage 1, which has remained unchanged since 2018.

(Amounts in NOK 1 000 000)	Stage 1	Stage 2	Stage 3
Instalment loans	(35)	0	0
Notes, bonds and other interest-bearing securities	(2)	0	0
Total expected credit loss	(37)	0	0

NOTE 7

Notes, bonds and other interest-bearing securities

(Amounts in NOK 1 000 000)

Notes, bonds and other interest-bearing securities by type of issuer	30 June 2020	30 June 2019	31 December 2019
Domestic			
Issued by other borrowers	18 866	18 474	16 584
Foreign			
Issued by public bodies ¹	87 962	90 321	75 285
Issued by other borrowers	22 146	2 450	19 243
Total notes, bonds and other interest-bearing securities	128 973	111 244	111 111

¹Issued by or guaranteed by sovereigns, central banks, regional authorities and multilateral development banks.

Notes, bonds and other interest-bearing securities by time to	30 June 2020	30 June 2019	31 December 2019
Under 1 year	41 317	49 319	40 923
1-5 years	86 994	52 377	60 604
Over 5 years	662	9 548	9 584
Total notes, bonds and other interest-bearing securities	128 973	111 244	111 111
Average time to maturity (years)*	1.95	1.91	1.51

*Average time to maturity shown in the table above applies to Notes, bonds and other interest-bearing securities, but not to money market deposits. These are presented on the line Deposits with credit institutions. Including such deposits, the average time to maturity of liquid assets is 1.82 years as of June 30, 2020.

NOTE 8

Credit exposure in notes, bonds and other interest-bearing securities

Amounts in the table below represent actual credit exposure

(Amounts in NOK 1 000 000)

Time to maturity	Exposure as at 30 June 2020									
	< 1 year				> 1 year					Total
Risk class	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated	
Sovereigns and central banks	9 828	0	0	0	0	4 098	24 740	800	0	39 466
Multilateral development banks	3 315	0	0	542	0	0	118	5 337	0	9 312
Regional authorities	6 094	0	0	8 967	0	1 569	13 926	5 694	2 934	39 184
Financial institutions	314	0	0	0	0	0	0	0	0	314
Securitisation	0	0	0	0	0	0	0	5	0	5
Covered bonds	7 335	0	0	4 923	0	0	6 406	22 029	0	40 693
Total	26 885	0	0	14 432	0	5 667	45 191	33 865	2 934	128 973

NOTE 9

Financial derivatives and cash collateral

(Amounts in NOK 1 000 000)	30 June 2020	30 June 2019	31 December 2019
Financial derivatives - assets	26 941	11 643	15 025
Financial derivatives - liabilities	35 571	25 363	27 425
Market value financial derivatives	(8 630)	(13 720)	(12 400)
Deposits with credit institutions (asset)	32 249	30 453	18 181
- of which pledged cash collateral	21 932	17 560	17 073
Loans from credit institutions	14 658	2 872	4 462
- of which received cash collateral	13 027	2 872	4 462
Net received (+)/pledged cash collateral (-)	(8 905)	(14 688)	(12 611)

Due to the corona situation and associated market turmoil, the NOK exchange rate against particularly USD fluctuated highly, and the Norwegian krone depreciated substantially during the month of March 2020. The NOK-USD exchange rate changed from 8.78 at year-end 2019 to 10.52 at the end of Q1 2020, and went as high as 11.40 on 19 March 2020. The Norwegian krone has gradually appreciated during the second quarter of 2020 along with the stabilisation of financial markets, ending at 9.64 on 30 June 2020. A contributing factor to the second quarter of 2020 change in the exchange rate has been the weakening of the USD against other currencies including the Norwegian krone. When the Norwegian krone depreciates (or the USD appreciates), the value of balance sheet items in foreign currency converted to Norwegian kroner increases, mainly Notes, bonds and other interest-bearing securities and Senior securities issued.

A further effect of the depreciation of the Norwegian krone (or appreciation of the USD) is that the market value of the bank's hedging contracts increases. Total market value of financial derivatives at the end of the first quarter of 2020 had risen to NOK 31.4 billion. Towards the end of the second quarter of 2020, the value has again been reduced to NOK –8.6 billion, see the table above. When the market value increases in KBN's favour, the bank receives cash collateral from its counterparties. KBN held cash collateral of NOK 29.0 billion at the end of Q1 2020. Received cash collateral is placed in the liquidity portfolio and in short term money market deposits, thus increasing the bank's total assets.

During the second quarter of 2020, KBN has paid out cash collateral in line with the strengthening of the Norwegian krone (and weakening of USD) and the reduction in market value of the bank's hedging contracts. At the end of Q2 2020, KBN had pledged cash collateral of NOK 8.9 billion. This illustrates how KBN is affected by fluctuations in exchange rates, especially USD-NOK. Should the USD depreciate (or NOK appreciate) to a large extent, then the bank will have to raise funds to pay cash collateral by reducing its liquidity holdings.

The above effects increased the bank's total assets to NOK 554.3 billion in Q1 2020. Subsequent reduction in market turmoil and stabilisation throughout the second quarter of 2020 has reduced total assets back to NOK 502.5 billion. An increased balance sheet reduces the bank's capital adequacy, which was the case in the first quarter of 2020. Capital adequacy has improved in the second quarter of 2020, see note 11.

NOTE 10

Senior securities issued

<i>(Amounts in NOK 1 000 000)</i>	30 June 2020	30 June 2019	31 December 2019
Senior securities issued (nominal amounts) as at 1 January	400 489	414 603	414 603
New issuance	55 252	53 167	72 508
Redemptions	(78 319)	(50 363)	(95 981)
Amortisation	700	892	1 417
Translation differences	35 839	(5 646)	7 943
Senior securities issued (nominal amounts) as at end of period	413 961	412 652	400 489
Accrued interest	4 779	3 974	4 402
Fair value adjustment	4 959	(6 894)	(978)
<i>Of which value change that is due to change in own credit risk</i>	239	432	527
<i>Of which value change that is due to other reasons</i>	4 719	(7 325)	(1 505)
Total senior securities issued	423 699	409 733	403 913

The value change on liabilities that is due to changes in own credit risk is calculated as the change in the credit spread that KBN pays converted to 3M USD Libor, Euribor or Nibor interest rates, i.e. after adjustment for any conversion from other currencies to USD. Value changes on liabilities that are due to changes in own credit risk are recognised in Total comprehensive income, while value changes on liabilities that are due to changes in other market parameters are recognised in the Income statement on the line Net unrealised gain/(loss) on financial instruments.

NOTE 11

Primary capital

(Amounts in NOK 1 000 000)	30 June 2020	30 June 2019	31 December 2019
<i>Common equity Tier 1 capital</i>			
Share capital	3 895	3 145	3 145
Retained earnings	11 223	9 863	9 784
Profit for the period included in Tier 1 capital	385	487	1 283
Pension funds above pension commitments	0	0	0
Deferred tax asset*	(430)	0	(688)
Intangible assets	(118)	(116)	(126)
Dividends payable	(299)	(255)	0
Other additions/deductions in common equity Tier 1 capital	149	297	370
Share of nulled unamortised estimate differences	0	0	0
Total common equity Tier 1 capital	14 805	13 422	13 768
Other approved Tier 1 capital	2 392	2 189	2 189
Total Tier 1 capital	17 196	15 611	15 957
<i>Supplementary capital</i>			
Ordinary subordinated debt	2 000	2 000	2 000
Total supplementary capital	2 000	2 000	2 000
Total primary capital	19 196	17 611	17 957

*Only non reversing deferred tax asset to be deducted here.

Primary capital has been calculated under the Regulation on the calculation of primary capital for financial institutions. Unrealised gain/(loss) on liabilities that is due to changes in own credit risk include both non-derivative and derivative liabilities.

NOTE 12

Capital adequacy

(Amounts in NOK 1 000 000)	30 June 2020			30 June2019	31 December 2019
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	Minimum capital requirements
Credit risk					
Sovereigns and central banks	39 486	0	0	0	0
Regional governments and local authorities	343 586	62 691	5 015	4 893	5 006
Of which are Norwegian municipalities	311 702	62 691	5 015	4 893	5 006
Public sector entities	7 305	0	0	0	0
Multilateral development banks	9 312	0	0	0	0
Financial institutions	27 822	3 282	263	615	153
Of which counterparty exposure on derivatives	17 432	2 061	165	119	138
Claims secured by residential property	27	27	2	2	2
Covered bonds	40 719	4 072	326	273	284
Other assets	1 545	3 830	306	1	291
Securitisation	5	1	0	1	0
Credit Valuation Adjustment	353	4 410	353	198	300
Total credit risk	470 158	78 313	6 265	5 982	6 037
Market risk	0	0	0	0	0
Operational risk—Basic Indicator Approach		3 879	310	264	310
Minimum capital requirements		82 192	6 575	6 246	6 348
Total capital ratio			23.4%	22.6%	22.6 %
Tier 1 capital adequacy ratio			20.9%	20.0%	20.1 %
Common equity Tier 1 capital adequacy ratio			18.0%	17.2%	17.4 %
Leverage ratio			3.7%	3.6%	3.7 %



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